

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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MEMORANDUM

TO: Peabody Retirement Board

FROM: John W. Parsons, Esq., Executive Director

RE: Approval of Funding Schedule

DATE: July 14, 2020

This Commission is hereby furnishing you with approval of the revised funding schedule the Board recently adopted (copy enclosed). The schedule assumes payments are made quarterly during the fiscal year. The schedule is effective in FY21 (since the amount under the prior schedule was maintained in FY21) and is acceptable under Chapter 32.

The revised schedule reflects a 7.75% investment return assumption (the same assumption as used in the January 1, 2018 actuarial valuations). There are 13 systems (including Peabody) that currently use an assumption of 7.75% or higher. We have generally recommended an assumption of 7.25% or lower for our 2019 actuarial valuations and we will generally be recommending the same assumption as part of our 2020 actuarial valuations. For comparison, there are 89 systems that currently use an assumption of 7.50% or lower. Of these, 45 use an assumption of 7.25% or lower. The 7.75% assumption is outside the high end of our reasonable range.

The System updated the mortality assumption to the new SOA Pub-2010 tables specific to job group. We completed a study of retiree mortality for local systems in 2019. As part of our study, we found that our experience was not consistent with the public retirement system mortality tables. Your actuarial valuation also reflects the adoption of other demographic assumptions based on an experience study performed by your actuary. We have not performed a recent experience analysis for local systems to compare our findings with the results of your actuary's study. We note that the assumptions are less conservative than the current standard PERAC assumption set, which we continue to believe is reasonable.



With respect to the amortization period of the unfunded actuarial liability (UAL), we would have preferred a schedule be adopted that more aggressively amortizes the UAL. The schedule completes the amortization of the UAL in FY36. For the past four years, we have been recommending that systems determine schedules to fully fund the UAL by FY35. This provides more flexibility in the event of a market downturn.

In our memorandums dated December 9, 2014, December 5, 2016, and October 4, 2018 we indicated that we had concerns about the salary increase assumption of 3.0%. This valuation used that assumption once again. This assumption is the lowest used by any system under Chapter 32. We expect over the long term that this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities. We note on page 3 there is a loss of \$4.9 million due to salary increases being greater than assumed. This is similar to the \$4.1 million loss as shown on salaries in the prior valuation.

We are available to discuss these issues further. If you have any questions, please contact PERAC's Actuary, John Boorack, at (617) 666-4446, extension 935.

JWP/jfb

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[https://shermanactuary-my.sharepoint.com/personal/dan_shermanactuary_com/Documents/Recovered Data/Peabody/Pension 2020/\[Peabody20_Val Prop Mort 15k COLA.xlsm\]Approp. Results](https://shermanactuary-my.sharepoint.com/personal/dan_shermanactuary_com/Documents/Recovered Data/Peabody/Pension 2020/[Peabody20_Val Prop Mort 15k COLA.xlsm]Approp. Results)

Appropriation Forecast

Fiscal Year	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Unfunded Liability	Funded Ratio %**
2021	\$4,479,767	\$1,507,270	\$11,663,799	\$13,171,069	26.2	\$172,283,514	48.5
2022	4,733,872	1,519,049	12,705,705	14,224,754	27.1	170,884,594	52.8
2023	5,001,775	1,528,837	13,833,898	15,362,735	28.0	171,469,435	56.2
2024	5,284,204	1,536,429	15,055,324	16,591,753	28.9	170,925,075	58.3
2025	5,581,922	1,541,608	16,377,486	17,919,094	29.9	169,065,180	60.7
2026	5,895,734	1,544,142	17,808,479	19,352,621	30.9	165,680,962	63.2
2027	6,226,486	1,543,783	19,357,048	20,900,831	31.9	160,538,790	65.9
2028	6,575,067	1,540,264	20,919,435	22,459,699	32.8	153,377,582	68.9
2029	6,942,412	1,533,302	21,559,286	23,092,588	32.3	144,027,889	72.0
2030	7,329,503	1,522,595	22,421,658	23,944,253	32.0	133,302,953	75.2
2031	7,737,373	1,507,820	23,318,524	24,826,344	31.8	120,871,351	78.5
2032	8,167,110	1,488,631	24,251,265	25,739,896	31.5	106,565,796	81.9
2033	8,619,856	1,464,662	25,221,315	26,685,977	31.3	90,204,637	85.4
2034	9,096,809	1,435,521	26,230,168	27,665,689	31.0	71,590,688	88.9
2035	9,599,234	1,400,792	27,279,375	28,680,167	30.8	50,509,965	92.5
2036	10,128,455	1,360,030	28,370,550	29,730,580	30.5	26,730,327	96.2
2037	10,685,868	1,312,762	0	1,312,762	1.3	(0)	100.0
2038	11,166,733	1,371,837	0	1,371,837	1.3	(0)	100.0
2039	11,669,236	1,433,569	0	1,433,569	1.3	(0)	100.0
2040	12,194,351	1,498,080	0	1,498,080	1.3	(0)	100.0
2041	12,743,097	1,565,494	0	1,565,494	1.3	(0)	100.0
2042	13,316,536	1,635,941	0	1,635,941	1.3	(0)	100.0
2043	13,915,780	1,709,558	0	1,709,558	1.3	(0)	100.0
2044	14,541,991	1,786,488	0	1,786,488	1.3	(0)	100.0
2045	15,196,380	1,866,880	0	1,866,880	1.3	(0)	100.0
2046	15,880,217	1,950,890	0	1,950,890	1.3	(0)	100.0
2047	16,594,827	2,038,680	0	2,038,680	1.3	(0)	100.0
2048	17,341,594	2,130,420	0	2,130,420	1.3	(0)	100.0
2049	18,121,966	2,226,289	0	2,226,289	1.3	(0)	100.0
2050	18,937,454	2,326,472	0	2,326,472	1.3	(0)	100.0
2051	19,789,640	2,431,164	0	2,431,164	1.3	(0)	100.0
2052	20,680,174	2,540,566	0	2,540,566	1.3	(0)	100.0

** Beginning of Fiscal Year